

IOWA STATE UNIVERSITY

Digital Repository

Integrated Crop Management News

Agriculture and Natural Resources

8-22-2008

Changes in Retail Fertilizer Market Impact Producers

Roger Ginder

Iowa State University, ginder@iastate.edu

Follow this and additional works at: <http://lib.dr.iastate.edu/cropnews>



Part of the [Agricultural Economics Commons](#), and the [Agricultural Science Commons](#)

Recommended Citation

Ginder, Roger, "Changes in Retail Fertilizer Market Impact Producers" (2008). *Integrated Crop Management News*. Paper 778.
<http://lib.dr.iastate.edu/cropnews/778>

This Article is brought to you for free and open access by the Agriculture and Natural Resources at Digital Repository @ Iowa State University. It has been accepted for inclusion in Integrated Crop Management News by an authorized administrator of Digital Repository @ Iowa State University. For more information, please contact digirep@iastate.edu.

[Subscribe to Crop News](#)

Archives

[2015](#)[2014](#)[2013](#)[2012](#)[2011](#)[2010](#)[2009](#)[2008](#)[Previous Years](#)

ISU Crop Resources

[Extension Field Agronomists](#)[Crop & Soils Info](#)[Pesticide Applicator Training](#)[Agronomy Extension](#)[Entomology Extension](#)[Plant Pathology Extension](#)[Ag and Biosystems Engineering Extension](#)[Agribusiness Education Program](#)[Iowa Grain Quality Initiative](#)[College of Agriculture and Life Sciences](#)[ISU Extension](#)

Integrated Crop Management NEWS

[PRINT STORY](#)
[EMAIL STORY](#)
[ADD TO DELICIOUS](#)
[ATOM FEED](#)
[FOLLOW ON TWITTER](#)

Changes in Retail Fertilizer Market Impact Producers

By Roger Ginder, Department of Economics

Major change in retail fertilizer markets over the past three years include price volatility and price increases. But, in addition to the unprecedented price volatility, basic changes in the trade practices at the manufacturing, wholesaling, and retail levels in the fertilizer value chain are affecting producers.

Shift to global industry

Some date the start of the changes to 2003-2005, when the two large farmer-owned manufacturing firms, Farmland Industries and CF Industries, exited the industry. But the transition of fertilizer manufacturing from a North American mid-continent industry to a more global industry had begun in the mid to late 1990s. Nitrogen fertilizer manufacturing is now a global industry.

Relatively low natural gas feedstock prices in the Former Soviet Union (FSU) and the Middle East favor more offshore production of nitrogen product. But the need to ship the finished product over a much longer distance means that the lead time required between manufacture and delivery is much longer.

It also means that international exchange rates become a factor in fertilizer pricing. The significant decline in the dollar's value earlier this year resulted in stronger grain prices, but it also increased the import price for many fertilizer products.

Inventory pricing changes

The exit of Farmland and CF coincided with a radical change in trade practices at the manufacturing and retailing levels. The production of these farmer-owned firms was more-or-less committed to the U.S. markets and to a great degree committed to the cooperative distribution system. They were willing to undertake the inventory risks and provide a great deal of stability in retail markets.

Inventory was manufactured more or less continuously and moved down the logistics channel to the wholesale and retail level in advance of the season. Much of the inventory moved into retail warehouses was un-priced and there was no commitment to price it before the local cooperative decided to price it. Requests to change fertilizer products even after they were priced were often honored. These policies provided producers and local cooperatives with maximum flexibility and influenced the trade practices of other manufacturers and local retailers in the market.

The remaining manufacturers are no longer willing to absorb this inventory price risk. Retailers have been required to place orders and pay for product prior to manufacture. In essence manufacturers have pushed the inventory price risk down the chain to wholesalers and retailers. Because there is no effective way to hedge fertilizer products, there is no good mechanism for retailers to manage the inventory price risk they are forced to accept.

Some of the added inventory risk has been absorbed at the wholesale and retail levels. But doing that is very similar to holding an un-hedged grain

inventory; a large risk that few are willing or able to undertake. The magnitude of this risk has increased twofold or in some cases threefold as fertilizer prices have skyrocketed. Those who lend operating capital to retailers for inventory financing are no longer willing to do so under these circumstances.

Retail Market Impacts

This creates a much changed retail marketplace for producers who, up to now, have incurred some price risk as they purchase their fertilizer product. The price could be higher if they have not priced their tons or it could fall after they have committed to a price. Most producers are accustomed to this kind of risk and routinely accept it.

But going forward producers will face the added risk of product or supply availability. With retailers unable to afford financing large inventories of un-priced fertilizer there is no assurance that enough product will be available when demand is high. If producers do not place an order and price the product well in advance, it may not be available when they need it.

An additional change in trade practices has evolved during the past 12 months at the wholesale level. Unlimited fertilizer supplies are no longer being offered to retailers from all manufacturers on a continuous basis. Defined quantities or "blocks" of product are being offered on an intermittent basis to retailers. In many cases these quantities are less than the retailer would prefer to purchase or could sell promptly.

Keep communicating with dealer

This means that the retailer may no longer be able to offer a price for fertilizer product to all customers on a daily basis. Sales can be made only to the extent product has been made available for the retailer to purchase. While that quantity may be adequate to promptly fill some customer orders, it may be inadequate to meet all customer demand at the time.

Whether or not this is a permanent change in trade practice is unknown at this time. For the near term, producers need to be aware that filling their fertilizer needs the coming year may be different than the past. There is less opportunity for producer price shopping when manufacturers require prepayment from the dealer and offer smaller quantities of product to dealers more frequently. Maintaining an ongoing relationship and more frequent communication with the dealer about supply becomes as important as searching the market for the lowest price.

Roger Ginder is a professor of economics with extension responsibilities.

This article was published originally on 8/22/2008. The information contained within the article may or may not be up to date depending on when you are accessing the information.

Links to this material are strongly encouraged. This article may be republished without further permission if it is published as written and includes credit to the author, Integrated Crop Management News and Iowa State University Extension. Prior permission from the author is required if this article is republished in any other manner.